ALGOMA CENTRAL RAILWAY ANNUAL REPORT 1978

Comparative Highlights

	1978	1977
Revenue	102,485,000	91,569,000
Net Income	8,816,000	7,118,000
Operating Expenses to Revenue	79.7%	80.6%
Earnings per Common Share	2.69	2.17
Dividends Paid per Common Share	.87	.78
Cash Flow per Common Share	7.13	5.96
Total Payroll	32,664,000	30,766,000
Employee Benefits	7,077,000	6,036,000
Taxes—Income and Other	8,901,000	7,381,000
Depreciation and Amortization	8,146,000	7,778,000
Fixed Asset Additions	23,679,000	17,799,000
At December 31		
Shareholders' Equity	55,517,000	49,652,000
Equity per Common Share	16.93	15.14
Retained Income	46,980,000	41,115,000
Long-Term Debt	59,427,000	51,880,000
Working Capital	5,434,000	2,845,000
Working Capital Ratio	1.30/1	1.19/1

The Annual Meeting of Shareholders will be held Wednesday, April 11, 1979 at 11.00 a.m. in the Holiday Inn, Sault Ste. Marie, Ontario

About the company
Incorporated in 1899 the Company operated for many years primarily as a wilderness railroad to transport iron ore and forest products out of Northern Ontario but in recent years Algoma Central has become a diversified transportation company moving cargo by water, rail and road. It operates a fleet of twelve dry bulk cargo vessels principally on the Great Lakes and the St. Lawrence Seaway. Its main railway line runs 295 miles north from Sault Ste. Marie and serves the natural resource, manufacturing and tourist industries of the Algoma region of Northern Ontario. Algoma Central's fleet of trucks is licensed to carry general cargo on routes serving the highly industrialized corridor extending from Detroit, Michigan to Toronto, Ontario and serves those centres and principal intermediate industrial communities. Closed corridor privileges extending to and from all points in this area permit service to and from Montreal, Quebec. Algoma Central has also developed a real estate complex on lands owned on the waterfront in downtown Sault Ste. Marie and, in addition, owns approximately 850,000 acres of land, including mineral and timber rights, in the Algoma region.

The Cover
Algoma Central Country includes hundreds of lakes as pictured on our cover. This view is one of many enjoyed by our Agawa Canyon tourists.
The Company leases wilderness cabin sites on these lakes to fishing, hunting and nature enthusiasts.

Photo Credits:

Hon. J. B. Aird	Cavouk, Toronto
L. N. Savoie	M. Brauer, Sault Ste. Marie
Cover	Soo Photo Service Limited Sault Ste. Marie
M/V Algobay	George S. Butt Photographers Limited Niagara Falls
Hull 217	Schuller Photography, Collingwood

To our Shareholders

Company policy of expansion by maximizing internal growth of present operations combined with continued diversification through complementary acquisitions has again resulted in the higher target levels forecast for 1978 being attained. Increases of 12% in consolidated revenues, 24% in net income and 20% in cash flow over 1977 operations were recorded in the past year. Net earnings amounted to $2.69 per share ($8,816,000) while cash flow was $7.13 per share ($23,387,000). The comparative earnings and cash flow for 1977 were $2.17 ($7,118,000) and $5.96 ($19,550,000) respectively.

A major influence on these results was the contribution of the trucking division with higher tonnage volumes and improved operating ratios caused by better traffic patterns. Revenue from marine operations, although higher than in 1977, did not meet expectations because of a short strike by members of one of our unions and by other labour stoppages affecting major customers for extended periods. The rail division contributed to the improved results by carrying increased freight tonnages and more passengers. Together with the continued success of our real estate operations, the Company's long range goals are being realized.

In 1978 we branched into a new area of transportation by purchasing a 50% interest in Viking Helicopters Limited. Viking is one of Canada's largest helicopter companies with head office and base at Carleton Place, Ontario and other permanent bases at Thompson, Manitoba, Thunder Bay and Kenora in Ontario and Pasadena, Newfoundland and is licensed to provide a wide range of charter air services throughout Canada, servicing mainly federal and provincial governments and mining and exploration companies. Viking also operates internationally, having been active in various parts of Africa for the past five years.

Algoma Central Railway and Viking feel that opportunities for expanded operations will result from new applications for helicopter use, proposed pipeline and power transmission construction and increased offshore drilling.

Effective December 1, 1978 the annual dividend rate, previously 84¢, was increased to 96¢. As a result of the year's operations, shareholder equity was $16.93 per common share at December 31, 1978 ($15.14 in 1977).

All labour contracts for rail division employees expired on December 31, 1978. National railway negotiations have been concluded with the associated non-operating and the shop craft unions. Discussion with the running trades employees are continuing. Meetings between the Company and the six unions bargaining locally are being held with the expectation that agreements will soon be reached consistent with those of the railway industry.

Road transport contracts generally expire in September, 1979 with the exception of one group which terminates in May. The marine division has settled with the deck officers and engineers with contracts continuing to

J. B. Aird

L. N. Savoie

May 31, 1981. Discussions are currently underway with unlicensed crews to extend their agreement from May 31, 1979 to the later date.

The Company expects to continue expansion in every area of its present operations. Although our prospects for expanded rail revenues are limited, we are aggressively exploring possibilities of new industry in the northern region. Our marine fleet, with its added capacity for the 1979 season, will commence delivery of Western Canadian coal to Ontario Hydro generating stations in April and other customer forecasts indicate that the 1978 traffic patterns will be repeated. The road transport division has started off strongly in the first two months of this year and, while continued growth at last year's rate cannot be expected, we are optimistic that 1978 results will be exceeded. The Company's latest entry into the transportation field through its investment in Viking is indicating excellent potential for 1979.

Attention should be drawn to the fact that while the Company has been increasing profits at a rate exceeding that of inflation, it has been doing so only through expansion and diversification. Profit margins have been and will be reduced by increased material, wage and fuel costs. Lost time from labour disputes affecting operations is a major concern and must be reduced if we are to make an adequate return for our shareholders.

We do face the coming year with enthusiasm and optimism trusting that we will be able, with the continued assistance of our officers and employees, to render satisfactory service to our customers and to earn an equitable return for the Company's investors.

Chairman of the Board

President

Review of Operations

Marine Operations

The results for the Company's marine division showed a marginal improvement in 1978, with a total movement of 12,466,000 tons as compared with 12,152,000 tons in the previous year, a 3% increase. Gross revenues for the division were $43,612,000, 6% greater than in 1977.

A number of significant problems arose during the year which had a detrimental effect on the overall performance of our fleet of 12 ships. An extended strike within the Quebec/Labrador iron ore industry resulted in reduced tonnage and extensive delays at the loading ports particularly affecting the earnings of our four bulk vessels. In addition, the movement of Canadian grain experienced difficulties with extensive delays resulting from insufficient grain supply at Thunder Bay and congestion at the St. Lawrence River transhipment terminals. Freight rate levels established by the Canadian Wheat Board and the lack of demurrage and dispatch arrangements resulted in inadequate earnings for this trade.

Contracts with the three marine labour unions expired on May 31, 1978. Although a satisfactory agreement was reached prior to this date with one union, only government intervention after an eight-day strike brought about settlement with the other two. The strike necessitated the laying up of nine of our ships for various lengths of time which adversely affected earnings. Presently our deck officers and engineers are under contract until May 31, 1981 and our unlicensed crews until May 31, 1979. It is hoped that we will be able to extend this latter contract to coincide with the termination date of the other two groups.

On June 19, 1978 the M/V Algobay was christened and launched at Collingwood Shipyards, Collingwood, Ontario and delivery was made to the Company on October 20, 1978. This ship, a full seaway-size self-unloading bulk vessel with a maximum carrying capacity of 35,000 gross tons, has a number of unique features incorporated into its design which have already proven to be beneficial. Contemplating extended seasonal navigation on the Great Lakes, the M/V Algobay has ice

P. R. Cresswell, Vice-President, Marine Division
Capt. J. Ferguson, Manager — Fleet Operations, Marine Division

strengthening in critical areas of the hull, higher horsepower and an advanced bow design to improve progress through ice. In addition, increased hull strengthening allows the ship to navigate beyond the normal Great Lakes/St. Lawrence River navigation limits to service customers as far east as Halifax, Nova Scotia and Argentia, Newfoundland.

The Company has under construction by Collingwood Shipyards another self-unloading bulk carrier, similar in design to the M/V Algobay but of shorter overall length and a resulting carrying capacity of 32,000 gross tons. The keel for Hull 217 was laid on September 27, 1978 and delivery is scheduled for September, 1979.

The decision to make these additions to the fleet was taken after careful consideration of our customers' needs and the general outlook for bulk tonnage movements that we service. We expect that all our ships, including the M/V Algobay and Hull 217 when it is delivered, will be fully utilized during the coming navigation season and we are continuing to study other areas of potential tonnage to determine whether further additions to our fleet are warranted.

Activities at Herb Fraser and Associates Limited, our ship repair subsidiary located in Port Colborne, Ontario, were reduced by a work slowdown by union employees during contract negotiations. Subsequently a two year agreement was concluded which expires May 31, 1980. It is hoped that this contract and a continued willingness to upgrade facilities to meet the needs of our own and our customers' ship repairs will result in a satisfactory year in 1979.

Our newest fleet addition, the M/V Algobay went into service October 20, 1978.

Rail Operations

Increased freight tonnage, expanding passenger travel, rate adjustments, greater timber harvesting and continuing interest in mineral deposits combined with the performance of rail division personnel achieved a successful year for rail operations.

Manufactured tonnage climbed 18%, forest products 15% and mining traffic 2% resulting in 3,932,000 tons of freight handled, a 7% improvement over 1977. In addition to greater volumes, much of the tonnage moved longer distances on our railway providing an 8% rise in revenue ton miles. Movements of manufactured steel, logs and lumber made the greatest contribution to these advances.

While the Agawa Canyon Tour continued to be our major passenger attraction during 1978, growing interest in our other tours was experienced. Growth in every segment, ranging from 2% to 115%, contributed to the overall total of 249,000 passenger trips — 15% more than in 1977. Although there are a number of factors involved, we believe that the promotion of our tours and the Sault Ste. Marie area undertaken by the Ontario Ministry of Industry and Tourism reinforced our own advertising program and the general emphasis on "Travel in Canada" persuaded more people to experience the beauty of the Algoma District.

Although advance payments were received from the Canadian Transport Commission in respect to operating losses attributable to our regular passenger train services, further considerations must be made before full entitlements are received.

Strong markets for both softwood and hardwood products resulted in greater timber harvesting and increased demands on our related lands and forests activities. Interests in mineral deposits, negotiations for use of our industrial lands, leasing of lands for private and commercial recreational pursuits and development of reforestation programs all continued throughout the year. Ground exploration programs to determine the potential for economic uranium deposits are also progressing. During 1978 approval of an overall land use policy for the multiple-use development of our forest and recreational lands was received. More specific plans will be advanced during 1979.

S. A. Black, Vice-President, Rail Division
C. H. Paul, Traffic Manager, Rail Division

The high tenor of good labour-management interaction achieved during recent years coupled with an investment program aimed toward a modern, efficient working environment created an atmosphere which met the increased challenges of 1978. Co-operative employee-employer consultative, developmental and social events were continued. Five diesel locomotives were rebuilt, shop modernization programs progressed, accommodation for track maintenance personnel was improved, new machines were acquired for track and shop maintenance work, 6 miles of track were renewed with 100 lb. rail, a hardwood tie program was initiated and emergency response equipment was updated. Similar programs will continue during 1979 with 4 locomotives being rebuilt, the final 5 miles of 85 lb. rail on the Soo Subdivision being replaced by 100 lb., the acquisition of additional lumber cars and providing additional covers for steel cars.

Indications for 1979 are that a small growth in steel tonnage and passenger travel should be experienced. Increasing costs will necessitate rate action in accordance with competitive considerations and adjustments made by the railway industry. The outcome of current labour negotiations for contracts which expired December 31, 1978 will be a major factor in determining the success of rail operations during 1979.

The Snow Train tour gains in popularity each winter.

Review of Operations

L. J. Thibodeau, President, Algocen Transport Holdings Limited
J. Singleton, Vice-President and General Manager, Thibodeau-Finch Express Limited

Trucking Operations

The performance of our trucking and warehousing operations showed a marked improvement in 1978. A 10% increase in tonnage handled and a better balance between east and west bound traffic improved operating ratios. These results came mainly because of the continuing efforts of operating personnel to provide a better service to customers and a sales effort directed at avoiding empty backhaul situations.

Capital expenditures during 1978 included the construction of a new 100,000 square foot warehouse in Sarnia, Ontario. This facility replaces previously rented space and provides capacity to take advantage of the growing market in that area. A project to construct a major new terminal on 12 acres of land in Montreal which will replace an existing smaller terminal now inadequate for Quebec generated traffic is being studied. Addition of warehouse space to the existing Chatham terminal is also under consideration.

In order to improve overall operating efficiency of our trucking and warehousing operations a number of internal changes were initiated in 1978. An amalgamation of the two Flanagan Companies took place late in the year to form Flanagan Warehousing & Distribution Co. Ltd. Our subsidiary, Transport T.F. Québec Limitée has filed an application for an extension of its licence in the Province of Quebec. During the year a complete re-evaluation of data processing and internal management information systems was undertaken by management working with outside consultants. This study resulted in the placing of an order for updated computer equipment having on line capabilities and greatly increased core memory which will provide improved equipment control, faster billing and better accounting procedures.

A number of management personnel changes took place during the year. Mr. James Singleton has been promoted to Vice-President and General Manager, Mr. David Howlett has been promoted to Director of Operations of Thibodeau-Finch Express Limited, and Mr. Keith Robinson, B.Com., C.A., has been appointed Treasurer and Chief Financial Officer of the Algocen Transport group of companies.

While labour agreements expire in the Spring and Fall of 1979, we remain optimistic for an interruption-free settlement. Rapidly escalating costs and the uncertainty of ever changing government policy regarding the trucking industry remain ongoing challenges to our road transport division and its 770 employees.

The "T-F" logo is a familiar sight on Ontario highways.

The 100,000 square foot Flanagan warehouse opened in February, 1979.

Real Estate Operations

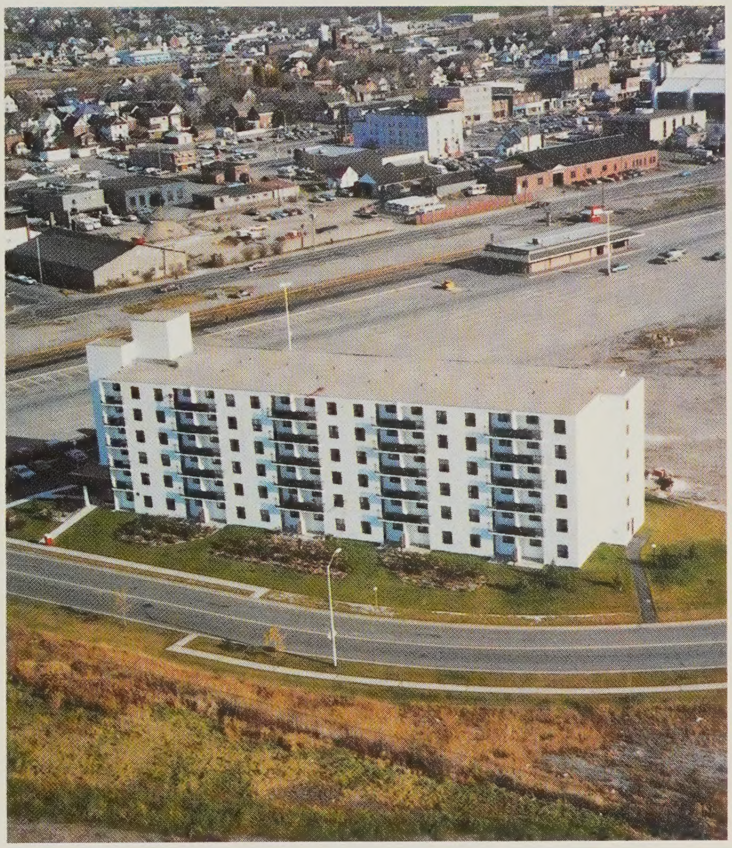
Increasing revenues from all projects of Algocen Realty Holdings Limited in 1978 have exceeded the initial financial forecasts on which the investments were made. The 101 unit senior citizen complex in Sault Ste. Marie has been completed on schedule and is fully occupied. The cost of construction stayed well within budget with cost savings being achieved by acting as our own project manager and general contractor.

The fifth anniverary year of the Station Mall shopping centre showed continued acceptance by the public with excellent sales increases. Expansion of the mall by adding 196,000 square feet of leasable floor space is planned with occupancy scheduled in 1981. Plans for the addition have been filed with the municipality and negotiations for site plan approval are underway. Unusually high interest has been shown by prospective tenants wishing to locate in the extension.

Plans to build a commercial development in Elliot Lake are progressing. Zoning approval from the Ontario Municipal Board for a regional shopping centre, office and an 87 room hotel complex has been granted. The twelve acre parcel of land in downtown Elliot Lake has been cleared and construction is planned to start in April, 1979.

To meet the growing commercial needs of Elliot Lake expansion, a comprehensive time table has been drafted to ensure that the complex is built in the shortest possible construction period. Both the major department store and the food outlet have been selected and preliminary design and layout completed. The general contracting will be the responsibility of a newly established construction department of Algocen Realty. The project has been budgeted at a cost in excess of $10,000,000 and is scheduled to be completed by the Spring of 1980.

N. J. Hirt, Vice-President and General Manager, Algocen Realty Holdings Limited
B. E. Boyes, Comptroller and Assistant General Manager, Algocen Realty Holdings Limited



"Station 49", senior citizens' apartment tower opened in Sault Ste. Marie in May, 1978.

This artist's conception will become a reality in Elliot Lake by early 1980.

Almost an annual event, another keel laying ceremony at Collingwood Shipyards.

One of five locomotives rebuilt at a cost of $1,600,000.

Three of 12 Hughes Model 500D helicopters delivered to Viking in 1978.

Financing

R. G. Topp, Corporate Controller
T. B. Gillespie, Treasurer

Our capital expenditures reached a new high in 1978, as $23,679,000 was added to our fixed assets base. Final payment on the M/V Algobay, added to our fleet in late October, 1978 and placed in operation immediately, accounted for $13,000,000 of this amount, while road transport equipment and warehousing buildings totalled $3,500,000. In addition $3,600,000 was expended on rail equipment and track upgrading with approximately $1,000,000 spent to complete the apartment tower in Sault Ste. Marie. Long-term debt increased by only $7,547,000 as the Company was able to finance a large portion of the cost of these assets from cash flow.

It is expected that capital expenditures for the current year will be substantial in all areas, well in excess of 1978, and this will necessitate recourse to further medium or long-term financing.

On March 1, 1979 the balance of the Series A bonds matured and $195,000 of Series A debentures were called for redemption. The Company was able to meet other sinking fund requirements by purchasing in the open market at attractive discounts because of present high interest rates.

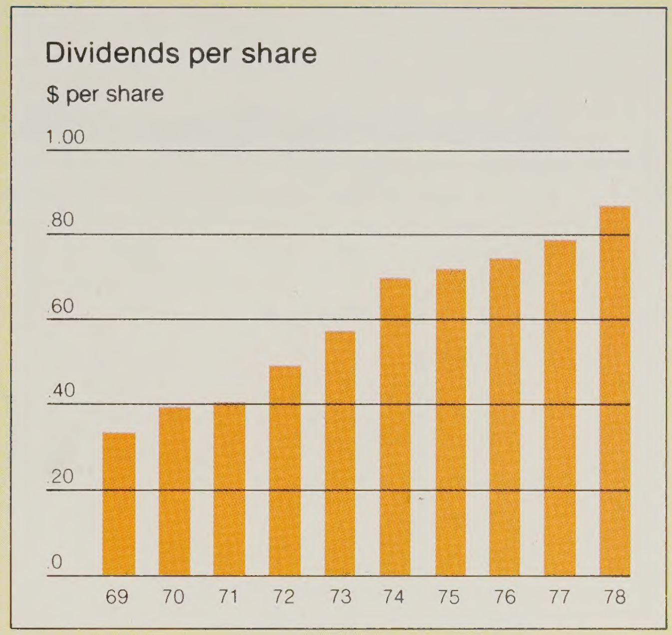
The impact of the investment tax credit, applicable to transportation companies, announced in the Federal budget will have a major impact on our various divisions when implemented. It is hoped that these income tax amendments will be confirmed in the near future.

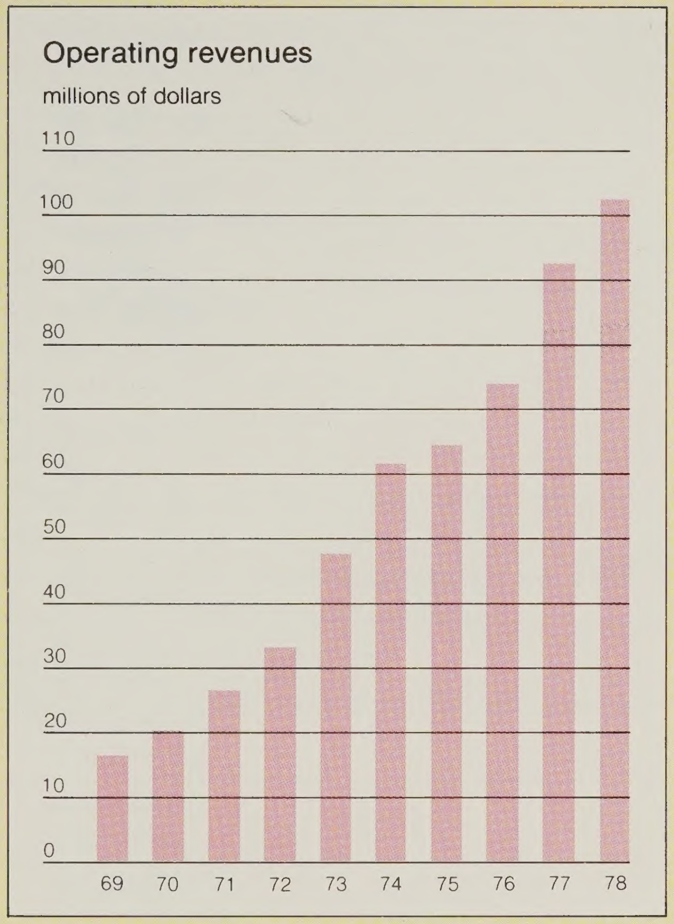
Further data has been added to the ten-year summary presented on pages 16 and 17 for the benefit of shareholders.

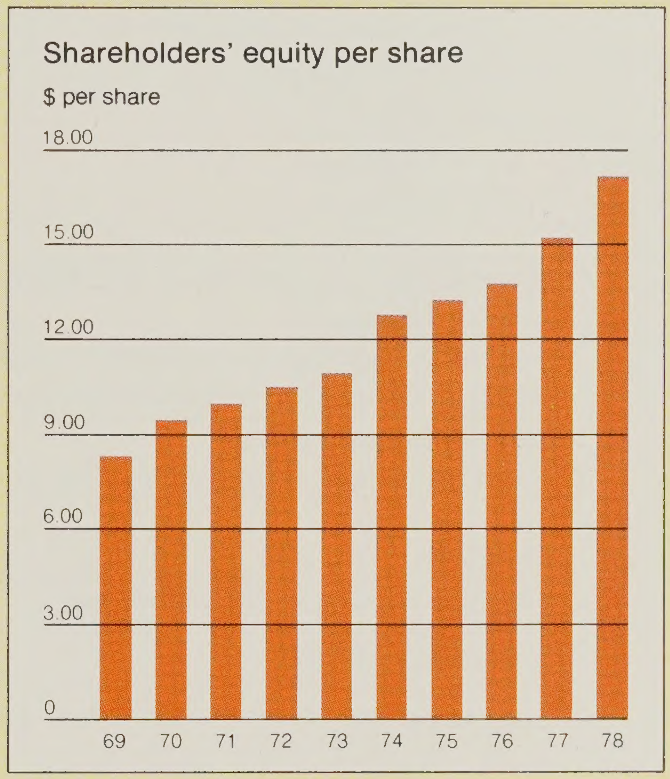
General

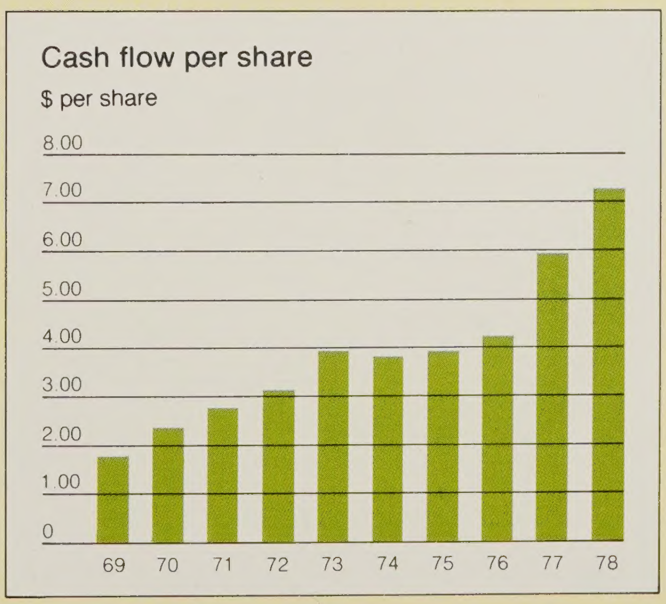
Sir Ian Lowson, Bt., London, England has decided not to stand for re-election as a director. This ends a family association of over thirty years that saw strong support given by both Sir Ian and his late father, Sir Denys Lowson, Bt., past Chairman of our Board, to the growth policy of our Company. The Board and management wish to record their sincere appreciation to Sir Ian Lowson for his efforts on the Company's behalf.

Progress Charts









Consolidated Statement of Income and Retained Income

for the year ended December 31, 1978 (with prior year's figures for comparison)	1978	1977
Revenue:		
Marine	$ 43,612,000	$41,094,000
Rail	26,028,000	22,345,000
Trucking	30,187,000	25,227,000
Real estate	2,658,000	2,903,000
Total revenue	102,485,000	91,569,000
Operating Expenses:		
Operations	64,248,000	57,669,000
Depreciation and amortization	8,146,000	7,778,000
Administration and general	6,018,000	5,330,000
Pension and retirement	2,270,000	2,087,000
Taxes, other than income taxes	1,004,000	895,000
Total operating expenses	81,686,000	73,759,000
Income from Operations	20,799,000	17,810,000
Deduct (add):		
Other income	(888,000)	(612,000)
Interest	5,266,000	4,818,000
	4,378,000	4,206,000
Income before Income Taxes and Equity Earnings	16,421,000	13,604,000
Income Taxes	7,897,000	6,486,000
Income for the Year before Equity Earnings	8,524,000	7,118,000
Equity in Earnings of Associated Companies	292,000	—
Net Income for the Year	8,816,000	7,118,000
Retained Income at Beginning of the Year	41,115,000	36,603,000
	49,931,000	43,721,000
Dividends	2,951,000	2,606,000
Retained Income at End of the Year	$ 46,980,000	$41,115,000
Earnings per Share	$2.69	$2.17

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1978 (with prior year's figures for comparison)	1978	1977
Working Capital Provided:		
From operations:		
Income for the year before equity earnings	$ 8,524,000	$ 7,118,000
Items not affecting working capital:		
Depreciation and amortization	8,146,000	7,778,000
Deferred income taxes	6,580,000	4,755,000
Provision for maintenance and insurance	137,000	(101,000)
Provided from operations	23,387,000	19,550,000
Increase in long-term debt	11,500,000	17,832,000
Disposals of fixed assets	203,000	259,000
Dividend from associated company	179,000	—
Total	35,269,000	37,641,000
Working Capital Applied:		
Additions to fixed assets	23,679,000	17,799,000
Investments	1,944,000	211,000
Repayment of long-term debt	3,953,000	17,902,000
Dividends	2,951,000	2,606,000
Other assets	153,000	246,000
Total	32,680,000	38,764,000
Increase (Decrease) in Working Capital for the Year	2,589,000	(1,123,000)
Working Capital at Beginning of the Year	2,845,000	3,968,000
Working Capital at End of the Year	$ 5,434,000	$ 2,845,000

The accompanying notes are an integral part of the financial statements.

Consolidated Balance Sheet

as at December 31, 1978 (with prior year's figures for comparison)	1978	1977
Assets		
Current Assets:		
Cash	$ 1,528,000	$ 1,873,000
Accounts receivable	16,714,000	11,806,000
Materials and supplies	4,463,000	3,741,000
Prepaid expenses	644,000	532,000
Total current assets	23,349,000	17,952,000
Accident Insurance Fund	387,000	218,000
Investments — Note 2	2,821,000	763,000
Forest Lands — at nominal value	1,000	1,000
Fixed Assets — Note 3	212,500,000	190,588,000
Less accumulated depreciation	74,565,000	68,117,000
Net fixed assets	137,935,000	122,471,000
Other Assets — Note 4	5,293,000	5,275,000

Approved by the Board:

Director

Director

Total	$169,786,000	$146,680,000

	1978	1977
Liabilities and Shareholders' Equity		
Current Liabilities:		
Bank indebtedness	$ 821,000	$ 915,000
Accounts payable and accrued charges	12,417,000	9,195,000
Income taxes	767,000	2,005,000
Current portion of long-term debt	3,123,000	2,304,000
Dividend payable	787,000	688,000
Total current liabilities	17,915,000	15,107,000
Provision for Accident Insurance	387,000	218,000
Provision for Maintenance and Insurance	2,154,000	2,017,000
Deferred Income Taxes	34,376,000	27,796,000
Long-Term Debt — Note 5	59,427,000	51,880,000
Minority Interest in Subsidiary Company	10,000	10,000
Shareholders' Equity:		
Share capital:		
Authorized:		
170,000 preferred shares, par value $50 each		
5,000,000 common shares, par value $2 each		
Issued and fully paid:		
3,278,875 common shares	6,558,000	6,558,000
Contributed surplus	1,979,000	1,979,000
Retained income — Note 7	46,980,000	41,115,000
Total shareholders' equity	55,517,000	49,652,000
Total	$169,786,000	$146,680,000

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

December 31, 1978

1. Significant Accounting Policies:

Consolidation:

The consolidated financial statements include the accounts of Algoma Central Railway and its subsidiary companies.

Foreign currencies:

Foreign currency accounts in these financial statements are translated to Canadian dollars as follows:

Current assets and current liabilities — at the rate of exchange prevailing at the year end.

Income and expenses — at a rate approximating the rate of exchange prevailing on the dates of the transactions.

Non-current assets, accumulated depreciation and long-term debt — at exchange rates prevailing at the time of acquisition or issue.

Fixed assets:

Fixed assets are stated at cost. The depreciation policy of the company is to write off the cost of fixed assets other than land over the estimated useful lives on a straight-line basis except for the buildings and site improvements owned by the realty subsidiary. The cost of these latter assets is written off on the sinking fund basis over thirty-five years at 5% compounded annually.

Income taxes:

Income taxes are accounted for using the tax-allocation basis, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming capital cost allowances for income tax purposes in excess of depreciation charged in the financial statements.

Accident insurance fund:

The accident insurance fund is stated at cost, less amounts written off. The market value of the fund at December 31, 1978 is $385,000 (1977 — $219,000).

Investments:

The company owns 34% and 50% of the common shares of associated companies, and accounts for its investment in these companies on the equity basis whereby the investment is initially recorded at cost and adjusted to recognize the company's share of after-tax earnings or losses and reduced by dividends received.

Deferred exploration and development expenditures:

Exploration and development expenditures incurred in connection with mining projects are deferred pending a decision as to the commercial viability of a project. Deferred expenditures relating to projects deemed commercially viable will be capitalized as mining properties and mineral rights and subsequently depleted on a unit-of-production method. Deferred expenditures relating to projects abandoned will be written off at the time of abandonment.

Goodwill:

Goodwill on the acquisition of subsidiaries is allocated to assets where applicable and any excess is then amortized over periods not exceeding twenty years.

Deferred charges:

Deferred charges are being amortized on a straight-line basis over the life of the related asset or liability.

Materials and supplies:

Materials and supplies are valued at the lower of cost and replacement cost, cost being determined on a first-in, first-out basis.

2. Investments

Details of investments are as follows:

	% of Common Share Ownership	Carrying Value 1978	1977
Associated companies:			
Viking Helicopters Limited	50.0	$2,023,000	$ —
All Canadian-American Investments Limited	33.6	345,000	231,000
Mortgages		335,000	356,000
Other		118,000	176,000
Total Investments		$2,821,000	$763,000

The difference between the cost of acquiring the associated companies and the equity in their underlying net assets is not material.

3. Fixed Assets:

Details of fixed assets by major operating divisions are as follows:

December 31, 1978

	Cost: Land	Cost: Depreciable Assets	Accumulated Depreciation
Marine	$ 20,000	$122,294,000	$30,388,000
Rail	608,000	51,244,000	33,143,000
Trucking	985,000	20,177,000	9,781,000
Real estate	654,000	16,518,000	1,253,000
Totals	$2,267,000	$210,233,000	$74,565,000

December 31, 1977

	Cost: Land	Cost: Depreciable Assets	Accumulated Depreciation
Marine	$ 20,000	$106,800,000	$25,323,000
Rail	608,000	48,415,000	32,566,000
Trucking	697,000	17,837,000	9,270,000
Real estate	654,000	15,557,000	958,000
Totals	$1,979,000	$188,609,000	$68,117,000

4. Other Assets:

Details of other assets at cost, less amounts written off, are as follows:

	1978	1977
Licences and related goodwill	$3,317,000	$3,258,000
Deferred exploration and development	1,051,000	1,040,000
Deferred charges	925,000	977,000
Total other assets	$5,293,000	$5,275,000

5. Long-Term Debt:

Details of long-term debt are as follows:

	1978	1977
Bank loans	$21,398,000	$12,370,000
5¾% first mortgage sinking fund bonds, Series A, due March 1, 1979	—	470,000
5¾% sinking fund debentures, Series A, due March 1, 1980	210,000	423,000
8¾% first mortgage sinking fund bonds, Series B, due June 1, 1991	7,053,000	7,782,000
9⅞% first mortgage sinking fund bonds, Series C, due October 17, 1997	15,000,000	15,000,000
9% blended payments bonds, due January 1, 1999	7,874,000	8,046,000

7½% promissory notes, repayable in equal semi-annual instalments of $327,000, due April 1, 1981	981,000	1,635,000
10¼% mortgage, repayable in equal monthly blended payments of $18,000, due November 15, 1982	1,958,000	1,980,000
10¼% mortgage, repayable in equal monthly blended payments of $17,000, due June 15, 1988	1,930,000	857,000
9½% promissory notes, repayable in equal annual instalments of $517,000, due September 30, 1982	1,550,000	2,066,000
11⅜% mortgage, repayable in equal monthly blended payments of $10,000, due May 1, 1995	917,000	939,000
Transport equipment loans	556,000	312,000
Total long-term debt	$59,427,000	$51,880,000

Bank loans:
The companies arrange bank borrowings with various maturities according to requirements. At December 31, 1978 the amounts shown as long-term debt consist of a series of loans which require repayment commencing in 1979. The weighted average interest rate is 11.35%. As security for certain of the bank loans, the company has pledged its holdings in the shares of certain subsidiary companies.

Sinking fund requirements:
The 1979 sinking fund requirements are as follows:

5¾% sinking fund debentures, Series A	$213,000
8¾% first mortgage sinking fund bonds, Series B	600,000
9⅞% first mortgage sinking fund bonds, Series C	—
Total sinking fund requirements	$813,000

The Series A debentures are due in 1980. The requirements for the Series B bonds will be $600,000 principal annually for the years 1979 to 1990 inclusive, and the Series C bonds $800,000 principal annually for the years 1981 to 1996 inclusive. At December 31, 1978, the company has purchased $7,000 Series A debentures and $747,000 Series B bonds for application to subsequent principal retirement requirements.

Blended payment bonds:
The 9% blended payment bonds are repayable in semi-annual instalments of $412,000 including interest and principal. In addition, annual supplementary principal payments are required when revenue from the collateral property exceeds a given amount. The supplementary amount due January 1, 1979 is $68,000.

Transport equipment loans:
These loans and mortgages have varying interest rates and repayment terms and are secured by individual assets. The weighted average interest rate is 10.9% and the maximum monthly principal and interest instalment is $39,000. These loans have varying due dates.

6. Bond Redemption Funds:
The unclaimed portion of funds placed with the trustee in 1959 for the redemption of the 5% income debenture stock and/or bonds which matured in that year has been invested and the company has taken into income the earnings thereon. The balance of funds unclaimed on March 10, 1989 will be returned to the company. At December 31, 1978 the unclaimed funds held by the trustee amount to $686,000.

7. Dividend Restrictions:
Dividends on the common shares are restricted by the terms of the second supplemental mortgage trust deed. The amount of consolidated shareholders' equity which is not subject to this restriction is $15,224,000 at December 31, 1978.

8. Remuneration of Directors and Officers:
Aggregate direct remuneration paid by the companies for the year to directors and senior officers, as defined by The Securities Act, Ontario, amounts to $518,000 (1977 — $503,000).

9. Pension Plans:
The company and a subsidiary have unfunded past service pension liabilities estimated at $3,144,000 as of December 31, 1978. These liabilities will be funded over the next fourteen years at an annual amount estimated to be $348,000. These payments will be charged to operations as incurred.

10. Lease Commitments:
The company is committed to annual rental payments of $1,735,000 for rolling stock under long-term leases expiring at varying dates up to 1991.

11. Capital Commitments:
The company has outstanding capital commitments of approximately $24,880,000 at December 31, 1978.

Deloitte
Haskins Sells

Auditors' Report

To the Shareholders of
Algoma Central Railway:

We have examined the consolidated balance sheet of Algoma Central Railway as at December 31, 1978 and the consolidated statements of income and retained income and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Auditors

Deloitte Haskins + Sells

Toronto, Canada
February 23, 1979

Ten Year Summary

Marine — Net tons carried (thousands)

	Ore	Coal and Coke	Grain	Other	Totals
1978	**4,040**	**1,297**	**1,185**	**5,944**	**12,466**
1977	4,115	1,368	1,337	5,332	12,152
1976	3,036	1,042	1,188	5,170	10,436
1975	2,999	1,078	1,413	4,854	10,344
1974	2,707	695	1,090	3,950	8,442
1973	2,950	1,233	1,590	3,858	9,631
1972	2,589	1,361	1,684	2,602	8,236
1971	2,640	1,350	1,275	2,895	8,160
1970	2,126	765	835	2,259	5,985
1969	1,522	618	412	1,844	4,396

Rail — Net tons carried (thousands)

	Mining	Manu-facturing	Forestry	Totals
1978	**2,382**	**984**	**566**	**3,932**
1977	2,338	832	492	3,662
1976	2,434	831	484	3,749
1975	1,881	683	281	2,845
1974	3,194	1,027	474	4,695
1973	2,875	1,056	506	4,437
1972	2,561	994	504	4,059
1971	2,338	922	519	3,779
1970	2,338	975	621	3,934
1969	1,803	770	675	3,248

On Valuation Day, December 22, 1971 common shares were quoted at $8.25

At December 31, 1971 long-term debt was valued as follows

5¾% Series A bonds due March 1, 1979	$ 90.00
8¾% Series B bonds due June 1, 1991	103.00
5¾% Series A debentures due March 1, 1980	88.50

(expressed in thousands)	1978
Revenue	
Marine	43,612
Rail	26,028
Trucking	30,187
Real estate	2,658
Total	102,485
Net income	
Before extraordinary items	8,816
After extraordinary items	8,816
Depreciation and amortization	8,146
Cash flow from operations	23,387
Dividends paid	2,853
Capital expenditures (including net book value of fixed assets purchased with business acquisitions)	
Marine	15,559
Rail	3,663
Trucking	3,496
Real estate	961
Total	23,679
Net fixed assets	
Marine	91,926
Rail	18,709
Trucking	11,381
Real estate	15,919
Total	137,935
Long-term debt	59,427
Shareholders' equity	55,517
Debt as % of net fixed assets	43%
Debt as % of shareholders' equity	107%
Dividends as % of net income (before extraordinary items)	32%
Operating expense ratio	79.7%
Working capital ratio	1.30/1
Common Share Statistics (3,278,875 shares outstanding)	
Net income	
Quarterly earnings	
First	.07
Second	.88
Third	.98
Fourth	.76
Total before extraordinary items	$ 2.69
Total after extraordinary items	$ 2.69
Quoted market value	
High	$24.00
Low	$15.62
Dividends paid	87¢
Cash flow	$ 7.13
Shareholders' equity	$16.93

Note: Certain figures of prior years have been restated to conform to the 1978 financial statement presentation.

1977	1976	1975	1974	1973	1972	1971	1970	1969
41,094	30,928	28,770	19,304	17,705	13,215	12,070	7,978	5,585
22,345	20,208	14,063	18,285	15,905	14,540	13,014	12,368	10,330
25,227	19,635	18,995	22,209	11,948	4,652			
2,903	2,905	1,775	1,199	170				
91,569	73,676	63,603	60,997	45,728	32,407	25,084	20,346	15,915
7,118	4,144	4,296	4,039	4,668	3,549	2,839	2,629	1,651
7,118	4,144	4,296	8,620	4,668	3,549	3,589	5,519	4,619
7,778	6,028	5,810	5,245	4,359	3,742	3,359	2,508	2,463
19,550	13,708	12,640	12,601	12,739	10,091	8,508	7,433	5,645
2,558	2,410	2,361	2,262	1,885	1,557	1,312	1,241	1,040
13,381	17,576	16,528	7,689	5,830	7,045	11,328	6,708	98
1,266	1,995	487	1,231	925	727	438	448	880
2,056	578	1,263	2,815	4,039	4,505			
1,096	30	438	4,645	9,746				
17,799	20,179	18,716	16,380	20,540	12,277	11,766	7,156	978
81,497	72,903	58,428	44,760	42,382	38,995	34,123	24,815	19,318
16,458	16,891	16,495	17,452	17,972	18,300	19,004	20,005	20,869
9,264	8,418	9,193	9,260	7,678	4,221			
15,252	14,428	14,661	14,541	10,038				
122,471	112,640	98,777	86,013	78,070	61,516	53,127	44,820	40,187
51,880	51,538	41,942	44,360	36,661	23,503	16,894	12,040	10,891
49,652	45,140	43,455	41,381	35,243	34,218	32,636	30,609	26,136
42%	46%	42%	52%	47%	38%	32%	27%	27%
104%	114%	97%	107%	104%	69%	52%	39%	42%
36%	58%	55%	56%	40%	44%	46%	47%	63%
80.6%	83.5%	83.4%	81.3%	76.8%	75.5%	75.0%	72.3%	77.7%
1.19/1	1.35/1	1.28/1	1.34/1	1.18/1	1.31/1	1.46/1	1.44/1	1.78/1
(.01)	(.10)	(.02)	.11	.16	.05			
.64	.43	.32	.42	.38	.23	Not		
1.03	.56	.44	.24	.50	.38	Available		
.51	.37	.57	.46	.38	.42			
$ 2.17	$ 1.26	$ 1.31	$ 1.23	$ 1.42	$ 1.08	87¢	81¢	51¢
$ 2.17	$ 1.26	$ 1.31	$ 2.63	$ 1.42	$ 1.08	$ 1.09	$1.69	$ 1.42
$16.00	$15.00	$16.37	$17.87	$16.50	$13.00	$10.50	$9.00	$11.00
$10.25	$10.75	$ 9.62	$ 9.00	$11.50	$ 8.50	$ 7.25	$5.62	$ 6.50
78¢	73½¢	72¢	69¢	57½¢	47½¢	40¢	38¢	32¢
$ 5.96	$ 4.18	$ 3.85	$ 3.84	$ 3.89	$ 3.08	$ 2.59	$2.28	$ 1.74
$15.14	$13.77	$13.25	$12.62	$10.75	$10.44	$ 9.95	$9.34	$ 8.04

Organization of Algoma Central Railway

ALGOMA CENTRAL RAILWAY

Marine Operations

MARINE DIVISION
- Operates 12 ships of which 9½ are owned by the Company.
- Supervises the ship repair and maintenance business.

ALGOMA STEAMSHIPS LIMITED
- Owns 2½ ships chartered to and operated by the Company.

HERB FRASER AND ASSOCIATES LIMITED
- Performs ship repairs and maintenance.
- Fabricates and repairs industrial metal products.
- Operations based in Port Colborne.

PROVIDENCE SHIPPING COMPANY LIMITED
- Presently inactive.

Rail Operations

RAIL DIVISION
- Operates the Company's freight and passenger railway system.

FOREST LANDS AND MINERALS
- Supervises use and development of 850,000 acres of land in Algoma region owned by the Company.

ALGOCEN MINES LIMITED
- Holds mining lease on silica-sand/kaolin deposit north of Hearst, Ontario.

Trucking Operations

ALGOCEN TRANSPORT HOLDINGS LIMITED
- Owns 6 trucking terminals in Southern Ontario and 1 in Montreal.
- Supervises trucking operations.

THIBODEAU-FINCH EXPRESS LIMITED
- Operates trucking routes between Detroit and Montreal.
- Owns trucking fleet.
- Operates the 7 terminals owned by Algocen Transport Holdings Limited and 1 leased terminal in Detroit.

TRANSPORT T.F. QUEBEC LIMITEE
- Operates trucking route between Montreal and Varennes, Quebec.
- Owns trucking fleet.

FLANAGAN WAREHOUSING & DISTRIBUTION CO. LTD.
- Conducts warehousing operations from commercial premises owned in London, Chatham and Sarnia.
- Operates trucking and cartage routes in Southern Ontario.
- Owns trucking fleet.

Real Estate Operations

ALGOCEN REALTY HOLDINGS LIMITED
- Owns a shopping centre-hotel-office tower complex and apartment building in Sault Ste. Marie.
- Manages the shopping centre and office tower and apartment building complex.
- Developing shopping centre-hotel-complex with office space in downtown Elliot Lake.

All subsidiaries are wholly owned with the exception of Algocen Mines Limited where there is a 10% minority interest.

Directors

*Hon. John B. Aird, O.C., Q.C., Toronto, Ontario
Senior Partner, Aird & Berlis

*Douglas A. Berlis, Q.C., Toronto, Ontario
Senior Partner, Aird & Berlis

†*Charles F. W. Burns, Toronto, Ontario
Honorary Chairman, Burns Fry Limited

Peter R. Cresswell, P.Eng., Sault Ste. Marie, Ontario
Vice-President and General Manager—Marine Division, Algoma Central Railway

George C. Hitchman, Toronto, Ontario
Deputy Chairman of the Board, The Bank of Nova Scotia

†*Henry N. R. Jackman, Toronto, Ontario
Chairman of the Board, The Empire Life Insurance Company

*John J. Jodrey, Hantsport, Nova Scotia
President, Minas Basin Pulp and Paper Company Limited

†Arthur J. Little, F.C.A., Toronto, Ontario
Company Director

Sir Ian Lowson, Bt., London, England
Investment Banker and Director of Investment Trusts

*Leonard N. Savoie, P.Eng., Sault Ste. Marie, Ontario
President and Chief Executive Officer, Algoma Central Railway

Leo J. Thibodeau, Windsor, Ontario
President and Chief Executive Officer, Thibodeau-Finch Express Limited

James W. Whittall, Toronto, Ontario
Chairman of the Executive Committee, Reed Stenhouse Companies Limited

*Member of Executive Committee
†Member of Audit Committee

Officers

Hon. John B. Aird, O.C., Q.C.
Chairman of the Board

Leonard N. Savoie, P.Eng.
President and Chief Executive Officer

Douglas A. Berlis, Q.C.
Vice-President, General Counsel and Secretary

Peter R. Cresswell, P.Eng.
Vice-President and General Manager—Marine Division

Stanley A. Black,
Vice-President—Rail

Thomas B. Gillespie, C.A.
Treasurer and Corporate Development Manager

Robert G. Topp, C.A.
Corporate Controller

C. Hugh Paul,
Traffic Manager

Transfer Agent: The Royal Trust Company
Toronto—Halifax—Montreal—Vancouver

Stock listed on the Toronto Stock Exchange —Symbol "ALC"

Banks: Bank of Nova Scotia
Bank of Montreal
Royal Bank of Canada

Auditors: Deloitte Haskins + Sells

Special Counsel: Aird & Berlis

ALGOMA CENTRAL RAILWAY and Subsidiary Companies

Corporate Head Office Marine Division Rail Division Algocen Mines Limited Algocen Realty Holdings Limited Algoma Steamships Limited Providence Shipping Company Limited	289 Bay Street, Sault Ste. Marie, Ontario, P6A 5P6 (705) 949-2113
Toronto Office	15th floor, 145 King Street W., Toronto, Ontario, M5H 2J3 (416) 364-1241
Marine Division Operations Herb Fraser and Associates Limited	1 Chestnut Street, Port Colborne, Ontario, L3R 1B3 (416) 834-6313 (416) 834-4549
Algocen Transport Holdings Limited Thibodeau-Finch Express Limited Terminals: Detroit, Windsor, Chatham, London, Brantford, Burlington, Toronto and Montreal	3049 Devon Road, Windsor, Ontario, N8X 4L3 (519) 966-1222
Transport T. F. Québec Limitée	197 Petit Bois, Varennes, Quebec, J0L 2P0 (514) 652-2415
Flanagan Warehousing & Distribution Co. Ltd. Warehouses and Terminals: London, Chatham and Sarnia	1036 Green Valley Road, London, Ontario, N6A 4C2 (519) 681-5100